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C O N F I D E N T I A L SECTION 01 OF 02 TAIPEI 003890

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SUBJECT: MA YING-JEOU TARNISHED BY MAYOR'S OFFICE
ACCOUNTING SCANDAL

Classified By: AIT Director Stephen M. Young,
Reason(s): 1.4 (B/D).

11. (C) Summary: Taipei Mayor and KMT Chairman Ma Ying-jeou finds himself unexpectedly under investigation for the alleged misuse of a mayoral office expense account. An assistant responsible for handling Ma's reimbursement requests has admitted to swapping high-dollar receipts of his own for Ma's smaller ones, purportedly to reduce paperwork and simplify accounting. At present, it appears that the assistant acted on his own, without Ma's knowledge or instruction, and there is no evidence at this point that either of them embezzled funds. Predictably, DPP opponents have called for Ma's resignation. Ma characterized the incident as "administrative negligence," not corruption, and said that he would not step down. Nonetheless, Ma's reputation for competence has been tarnished. Comment: Barring further revelations, this storm will pass, and will probably not affect Ma's 2008 presidential chances. Taiwan voters have short memories, and by the time the KMT chooses its presidential candidate, this story should largely be forgotten. End Summary.

Sloppy Accounting Lands Ma in Trouble

12. (U) Taipei mayor and KMT Chairman Ma Ying-jeou, long known for his squeaky-clean image, is under fire for allegedly misusing funds from a mayoral "special allowance" expense account. Taipei city prosecutors questioned Ma for four hours on Tuesday, November 14. DPP legislators prompted the inquiry by filing complaints in August charging that Ma had improperly transferred money from a mayoral expense account to his personal bank account.

13. (U) The assistant responsible for handling Ma's expense account submissions, Yu Wen, was interviewed by prosecutors for six hours on November 15. According to press reports, he admitted to replacing small dollar-amount receipts with large dollar-amount receipts of his own, in an attempt to reduce his paperwork. Taipei City Government Secretariat Director Lee Shu-te told the press on November 15 that Ma typically spent between NT\$10,000-20,000 (US\$300-600) each month on fruit, newspapers, and other small items, generating between 50 and 100 receipts per month. Instead of submitting a reimbursement request for each individual receipt as

required, Yu substituted fewer, larger receipts from himself and others to simplify the submission process. Lee insisted there is no evidence that Yu had embezzled any money. Nonetheless, prosecutors forbade Yu from leaving Taiwan, and he may face prosecution for falsifying documents. Ten others have been questioned by prosecutors as part of the investigation. No charges have been filed. (Comment: DPP critics predictably rejected this explanation, arguing that the average of four receipts per day over the past two years could not be considered onerous for Yu. End Comment.)

¶4. (U) According to Lee, Yu saved all of Ma's original receipts, worth a total of NT\$1.4 million (US\$45,000). Those receipts have already been turned over to the prosecutor's office. Press reports say that from 2003-2006, Yu replaced NT\$800,000 (US\$26,000) of Ma's receipts with Yu's own larger-value invoices to obtain reimbursements from the mayor's special allowance account. The remaining NT\$600,000 (US\$19,000) was reimbursed from another, separate account. Mayoral Office Director Cheng An-kuo, who supervised reimbursement accounts, tendered his resignation, which Ma accepted.

Ma Takes Responsibility, Not Blame

¶5. (U) During a press conference on November 15, Ma apologized for Yu's misconduct, which he characterized as "administrative negligence," not corruption. Ma denied knowledge of Yu's wrongdoing until it was unearthed by the prosecutors' investigation, asserting that he typically did not follow the details of how expenses were reported for the mayoral "special allowance" account. Although he was "ashamed" of the mistakes in his office, Ma insisted that all

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funds had been used for official purposes, and that he did not need to resign over Yu's "clerical errors" because he was not directly involved. Ma has less than 40 days remaining in his second and last four-year term as mayor.

DPP: Ma's A Hypocrite, Should Resign

¶6. (U) DPP Chairman Yu Shyi-kun and several DPP legislators were quick to draw parallels between Ma's current imbroglio and President Chen's alleged involvement in the submission of others' receipts to withdraw funds from a special presidential expense account. In an oblique call for Ma's resignation, Yu demanded that Ma judge himself by the same standard he used to judge President Chen. (Note: Prosecutors stated publicly that they have found no evidence to suggest that Ma knew of or was involved in Yu Wen's submission of fraudulent receipts. End note.)

Ma Will Survive, But Not Unscathed

¶7. (C) KMT Taipei mayoral candidate Hau Long-bin's deputy campaign manager Sam Wu (Hsiu-kwang) told AIT on November 16 that because Ma has trumpeted the very high ethical and professional standards he has set for himself, he is vulnerable to attack for the slightest misstep. If any other politician had this problem, Wu remarked, it wouldn't be worth reporting, but with Ma, it's front-page news. Wu told AIT that, having worked with Ma personally for a "long time," he did not believe that Ma knew of, or was involved in, the accounting misconduct giving rise to the scandal, and was certain that Ma did not embezzle money.

¶8. (C) Although Ma's reputation for honesty will probably not be harmed, Wu observed, his reputation for competence has already been damaged. Voters may question Ma's capability to govern the country if he is unable to competently manage the mayoral office. There is still a slight chance that Ma could be indicted, Wu added, because Taiwan's prosecutors are not

immune to political pressure from the central government. Within the next three weeks, just before voters go to the polls for mayor, prosecutors could determine whether to indict Ma. (Comment: Separately, veteran DPP legislator Hung Chi-chang told AIT that Ma's current troubles would fade quickly and have little effect on his long-term political prospects. End Comment.) Wu, however, feared the short-term effects of this scandal on Hau Long-bin's mayoral campaign, which are reported septel.

Comment

19. (C) Unlike President Chen, Ma did not admit to knowing of or instructing others to submit fraudulent receipts to obtain funds from a discretionary account, and so far no evidence to the contrary has been presented to the prosecutors. Unfortunately for Mayor Ma, for political purposes he is required to accept managerial responsibility for the misconduct of those working for him. The public, at Ma's own urging, has come to expect more from him than the "average" Taiwanese politician. Those inclined to distrust the KMT may view this scandal as proof that Ma is corrupt, but even those pan-Blues who support Ma may begin to question his competence as a manager. Barring any revelation that he was actively involved in the accounting shenanigans, Ma will probably survive, and hold on to his mayorship and KMT chairmanship. But the media and Ma's pan-Green opponents continue to dig relentlessly for damning evidence. Ma's perfect track record and maybe even his "Mr. Clean" image have been sullied, but this incident alone probably won't be enough to cost him the presidential nomination in 2008, though it could cost him support from some swing groups, including women and young people. On another level, this investigation of Ma over an accounting practice most political figures also use, could lead to a scramble to check on the records of other prominent officials as Taiwan's endless political season marches on.

YOUNG